

## BUY (prev. BUY)

**12m Target Mcap** US\$ 1,665mn

**Current Mcap\*** US\$ 1,413mn

Report priced as of Mar 30, 2004

We maintain our **BUY** recommendation for Dogan Holding with a new fair value estimate of **US\$1,665mn** and an upside potential of **18%** from the current mcap. We have based our positive view for the conglomerate based on its favorably positioned portfolio which is highly geared to the improving macroeconomic fundamentals and the continuing decreasing risk for the Group's leverage figures.

Since our last report dated **Dec 2003**, new developments have made us more **positive for the company**. Dogan Holding's offering of its 10% Dogan Yayin Holding stake generated US\$108mn funds for the conglomerate. We think that more funds are on the way both for the short-term (dividends from Disbank) and long-term (possible SPO of Petrol Ofisi (PO) shares in 2005 and a possible divestment of Disbank stake to a strategic partner), which will all further decrease Dogan Holding's leverage and create funds for additional growth plans.

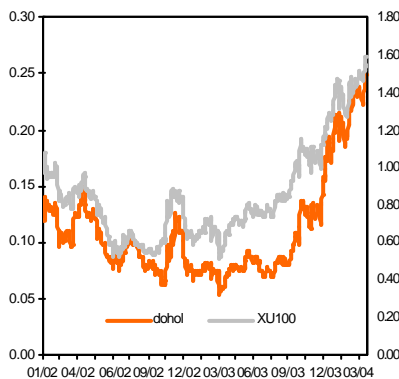
**PO's leverage has significantly dropped, affecting the company's fair value estimates and contribution to Dogan Holding's NAV positively**. Thanks to the significant improvement in the company's working capital need, PO's consolidated net debt fell from US\$1,467mn in 2002 to US\$878mn at the end of 2003. We expect the company's policy to reduce debt levels to more sustainable levels to continue, with 2004YE consolidated net debt target of US\$750mn. Our new target value for PO is US\$1,030mn, based on the average of DCF driven fair value and comparative valuations. An agreement with the new Tupras management and possible increase of distributor commissions will be new drivers value for the stock.

**Media will continue to be the major growth driver for Dogan Holding**. We have become more bullish for DYH thanks to the increased ad revenues growth forecast (27%) for 2004 and the conversion of ad prices from US\$ basis to TL basis starting in February. We believe that the company's EBITDA will be positively affected by these developments. New strategic partnership opportunities with a foreign media group and new share offerings within the media segment will be the potential positive newsflow for DYH, in our opinion.

**March 31, 2004**

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	2003E	2004E	2005E		
<b>Net Sales (US\$m)*</b>	4,328	4,357	4,468	<b>Price (TL)</b>	3,150
<b>EBITDA (US\$m)*</b>	310	401	444	<b>Price (USc)</b>	0.24
<b>Net Income (US\$m)*</b>	92	160	184	<b>MCap (US\$m)</b>	1,413
<b>P/E</b>	15.4	8.8	7.7	12m high	1,475
<b>EV/EBITDA</b>	n.m.	n.m.	n.m.	Upside to max	4%
<b>EV/Sales</b>	n.m.	n.m.	n.m.	12m low	279
<i>*IAS consolidated results</i>				Premium to min	406%
	<b>1m</b>	<b>3m</b>	<b>12m</b>	12m average	718
<b>US\$ performance</b>	2%	25%	304%	(Disc)/Prem to Avg	49%
<b>Relative Performance</b>	-4%	9%	47%	<b>No. shares</b>	588,231
<b>Avg. Daily vol. (US\$m)</b>	67.5	78.7	53.6	<b>Free float</b>	34%
				<b>FF. MCap</b>	480

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## Valuation and Recommendation

We maintain our BUY recommendation for Dogan Holding due to the increased target valuation and better risk/return profile for the company's fundamentals. Thanks to some new positive developments, we have increased our fair value estimate for the company to US\$1,665mn, based on the target net asset valuation (NAV) of the company. Our new target value indicates 18% upside potential from the current mcap of US\$1,413mn.

Figure 1- NAV Model

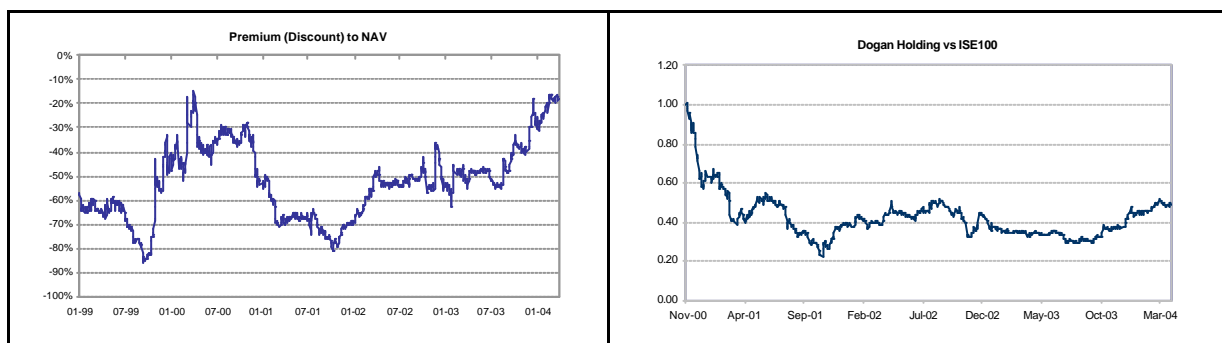
Listed Participations	Business	Stake	Mcap (US\$mn)	Valuation method	Target Mcap (US\$mn)	Part. Mcap (US\$mn)	Part. Target Mcap (US\$mn)
Dogan Yayin H	Media	66.57%	1,156	@Target NAV	1,275	770	849
Petrol Ofisi	Petr. Distribution	47.43%	1,293	@DCF	1,030	613	489
Milliyet Paz.	Marketing & Distr.	65.00%	37	@mcap	37	24	24
Disbank	Banking	62.37%	445	@0.8x2004E book v.	550	278	343
Celik Halat	Iron, Metals	48.44%	13	@mcap	13	7	7
Ditas Dogan	Auto Parts	55.71%	14	@mcap	14	8	8
<b>Listed Total</b>			<b>2,957</b>		<b>2,894</b>	<b>1,700</b>	<b>1,720</b>
Unlist participations	Business	Stake		Valuation Method		Estim. Val (US\$mn)	Particip. Equity (US\$mn)
Others	Various	-		Book Value		37	22
<b>Unlisted Total</b>						<b>37</b>	<b>22</b>
						Current	Target
			<b>Subtotal (listed+unlisted - US\$ mn)</b>			<b>1,722</b>	<b>1,742</b>
			<b>Net Cash (US\$ mn)*</b>			<b>-77</b>	<b>-77</b>
			<b>Net Asset Value (US\$ mn)</b>			<b>1,645</b>	<b>1,665</b>
			<b>Dogan Holding Mcap (US\$ mn)</b>			<b>1,413</b>	<b>1,413</b>
			<b>Prm/(Disc) to Listed Part.</b>			<b>-16%</b>	<b>-14%</b>
			<b>Prm/(Disc) to NAV</b>			<b>-14%</b>	<b>-15%</b>
			<b>Upside potential</b>			<b>16%</b>	<b>18%</b>

Source: Company Ekspres Invest estimates

(\*) as of March 2004

In fact, the improving fundamentals started to be reflected in the stock's performance. In the past, Dogan Holding used to trade at deep discounts to its NAV while the discount has been narrowed to meaningful levels recently. However, long-term relative performance graph to ISE100 (since November 2000 crisis) looks still very depressed. We believe that the stock will also somewhat close the performance gap with ISE100 in the near to mid-term.

Figure 2- Dogan Holding's discount to NAV and performance relative to ISE graphs



Source: ISE; Ekspres Invest estimates

## Reasons for our Optimism

**Previously, we had initiated our coverage for the conglomerate in December 2003 with a BUY recommendation and a fair value estimate of US\$1,250mn.** We had argued that the leverage of Dogan Holding and Petrol Ofisi (PO), the petroleum distributor where Dogan Group and Isbank has equal stakes, will not be a big hurdle for the company for the medium-term. We had claimed that Dogan Holding's financing options to service its debt obligations (US\$233mn of total debt and US\$141mn of net debt – on the date of the report) were vastly enhanced, thanks to the improving macro economic fundamentals. We think that these options would be:

- (1) SPO in Dogan Yayin Holding (DYH), its main media company
- (2) Sale of PO shares that had been previously acquired through the call last year;
- (3) Future dividends from Disbank or DYH;
- (4) Further debt restructuring
- (5) Possible sale/partnership in Disbank.

On the other hand, we had analyzed the debt obligations of PO and had found out that again thanks to improving macroeconomic fundamentals, the leading fuel distributor will not have any problems in servicing its debt payments during 2004 and even in 2005 when principal payments will peak at US\$464mn (on the date of the report). Finally, we had referred to the excellent portfolio of Dogan Holding (banking, media, petroleum distribution) which is well-gearred for the expected consumption growth for 2004 and beyond.

**The developments regarding the company during the last four months have even surpassed our expectations and caused the upgrade in Dogan Holding's fair value estimate.** These developments are:

### ***Reduction of the net debt at the Holding level***

Dogan Holding completed the private placement of 10% of DYH shares to foreign institutional investors at a price of TL 4,800/share which generated US\$108mn of funds for the company. As a result, the company's current net debt fell to US\$77mn (US\$148mn of cash and US\$225mn of loans) after minor equity transfers to some participations. On the other hand, as we highlighted in our previous report, Disbank announced dividends of US\$33mn, which will produce US\$21mn of dividend income for Dogan Holding.

### ***Valuation upgrade in PO***

The debt figures of PO are decreased faster than expected, thanks to the positive change in the company's working capital need. The easing in payables days owing to increased import figures and better control of receivables from the dealers have been the major contributors to this performance. *As result, PO's consolidated net debt fell from US\$1,467mn as of 2002YE to US\$878mn as of 2003YE* (excluding the liabilities to Privatization Administration worth US\$145mn (PA)). On the other hand, PO-only debt fell to US\$818mn at the end of 2003, and below to US\$800mn on March 2004 (again excluding the liabilities to PA). *We expect the change in PO's working capital need to be positive again this year.* We believe that PO and the new management of Tupras will come to new terms which will help PO to further ease its payables terms for the second half of 2004 and beyond. We forecast the company to reduce its consolidated and PO-only net debt further to respective US\$750mn and US\$700mn at the end of 2004. Investors should note that PO has US\$145mn of liabilities to PA. *As a result of these changes, PO's DCF driven target value climbed to US\$1,162mn. However, thanks to its financial debt, PO looks more expensive in terms of comparative valuations. Fair value estimate than comes to US\$793mn, based on target 2005EV/EBITDA multiple of 5.8x and estimated current consolidated net debt (including liabilities to PA) of US\$945mn. Blending*

*these two figures (by giving 67% weight to DCF and 33% to multiple approach), the new fair value estimate of PO comes to US\$1,030mn.*

#### **Valuation upgrade in Dogan Yayin Holding (DYH)**

We have become more bullish for DYH thanks to the increased ad revenues growth forecast (27%) for 2004 and the conversion of ad prices from US\$ basis to TL basis starting in February. We believe that the company's EBITDA will be positively affected by these developments. We forecast 2004 consolidated EBITDA of US\$151mn, up 49% YoY. As a result, we have upgraded our fair value estimate for DYH to US\$1,275mn, based on the company's target NAV.

#### **Decreasing risk/return profile of the company's banking business**

Despite its small size, Disbank in terms of free capital ranks second among all the banks with US\$377mn as of YE03, only after Akbank. Free capital is one of the most important criteria in Turkish banking considering scarce capital base in general, and its positive effect in profitability, let alone that it provides muscle for the bank for future organic growth opportunities. Equally important, is the fact the bank posted important achievement in retail banking, increasing its market share in credit card transactions from almost nothing in 2001 to 2.5% in 2003. *At 0.8x to its 2004E book value, we value the bank at US\$550mn.*

### **Potential stock moving pipeline events**

**On the other hand, some new potential events relevant to Dogan Group are on the way and we believe that their probability of realization is quite high. If realized, each of them will be very positive for Dogan Holding and is likely to spark further activity in company's shares:**

#### **Holding level**

We believe that Dogan Holding will be a contender for the upcoming privatization tender of National Lottery scheduled for 4Q04, which will provide important synergies for Dogan Group's media business. On the other hand, as a further relieving factor for Dogan Holding's financing options, we believe that the improving fundamentals of PO is likely to create room for Dogan Holding and Isbank to divest PO shares they had acquired from the call option in 2002 with a secondary offering, probably in 2005. On the other hand, as we had mentioned in our previous Dogan Holding report, DYH might start to give dividends starting in 2005. Finally, a potential foreign partner in Disbank might also generate new funds for the company.

#### **Potential developments in Petrol Ofisi**

Recently, a possible increase in the dealer commissions of downstream sector has come to the government's agenda. The distributors' claim that US\$ based commissions and high product prices hurt both the dealers and the companies. The distributors said that 20% increase in the commissions would meet their previous losses. *Although 20% hike in the commissions is unlikely, we believe that the government might still somewhat finetune these commissions ahead of the deregulation before 2005, which will further affect the company's target value positively. On the other hand, as previously mentioned, a likely agreement of PO with the new management of Tupras will be very positive for PO's working capital need in the future.*

#### **Potential developments in the media business**

We believe that the chances for a more than expected strength in the ad market this year is far from slim. On the other hand, we think the probability of further stock moving events for DYH is very high for the near-term. The upcoming tender for the broadcasting rights of Turkish Soccer League will be an exciting event to watch, since DYH seems to be well prepared for this tender

with its previously launched digital platform, called FreeTV. DYH recently announced that they are exploring strategic partnership opportunities with the Mediaset of Italy in the Turkish media sector. Furthermore, we believe floatation of TV assets in some way is likely throughout late 2004 or 2005, which will create further funds for the company. Finally, Dogan Gazetecilik, which was formed by the merger of Milliyet Gazetecilik and Simge Yayincilik, will be another investment story with improved fundamentals and synergies and is another candidate for a secondary offering in 2005, in our opinion.

***Potential developments in banking***

Disbank has the second highest ratings among all the Turkish banks which puts the bank as an ideal acquisition target for international parties looking for a niche player in the market, also considering the bank's significant market share in trade finance. New banking law, if put into force as speculated (media players might be restricted to own a bank) might force the current owners to a divestment, mainly to a foreign bank interested in Turkish banking assets. *Also the recent closing of the Intesa/Garanti Bank deal enhances the prospects of small scale banks, including Disbank, to attract foreign interest.*

FIGURE 3- IAS Income Statements and Forecasts (US\$m)

	2001	2002	2003	2004E	2005E
<b>Revenues</b>	<b>3,574</b>	<b>3,451</b>	<b>4,328</b>	<b>4,357</b>	<b>4,467</b>
Non-banking and financial services	2,707	2,758	3,564	3,626	3,744
Banking and Financial services	868	693	764	731	724
<b>Operating Expenses</b>	<b>-3,504</b>	<b>-3,242</b>	<b>-4,144</b>	<b>-4,117</b>	<b>-4,173</b>
Non-banking and financial services	-2,713	-2,687	-3,510	-3,508	-3,567
Banking and Financial services	-791	-555	-635	-609	-607
<b>Operating Profit/(Loss)</b>	<b>15</b>	<b>125</b>	<b>184</b>	<b>240</b>	<b>294</b>
Non-banking and financial services	-26	18	55	118	177
Banking and Financial services	41	107	129	122	117
Financial Income (net)	-721	-135	-72	-23	-35
(loss)/Gain on net monetary position	403	121	42	41	37
<b>Income before tax, min int, extra. items</b>	<b>-304</b>	<b>111</b>	<b>154</b>	<b>258</b>	<b>295</b>
Taxation	76	-31	-46	-80	-92
<b>Profit/(Loss) before minority interests</b>	<b>-228</b>	<b>80</b>	<b>108</b>	<b>178</b>	<b>204</b>
Minority Interest - Dogan Family	15	1	4	4	4
Minority Interest - other	43	-23	-20	-22	-24
<b>Net Profit/(Loss)</b>	<b>-170</b>	<b>58</b>	<b>92</b>	<b>160</b>	<b>184</b>
<b>EBITDA</b>	<b>81</b>	<b>205</b>	<b>310</b>	<b>401</b>	<b>444</b>

Source: Ekspres Invest estimates, Company

FIGURE 4- IAS Summary Balance Sheets and Forecasts (US\$m)

	2001	2002	2003E	2004E	2005E
Cash & Marketable Securities	1,167	934	885	927	1,025
Trade Receivables (net)	250	242	320	322	330
due from Related Parties	22	22	29	29	29
Inventories (net)	81	91	127	126	128
Other Current assets	1,009	1,646	1,793	1,904	1,992
<b>Total Current Assets</b>	<b>2,529</b>	<b>2,935</b>	<b>3,154</b>	<b>3,308</b>	<b>3,504</b>
Property, Plant & Equipment (net)	637	686	720	749	775
Intangible Assets	595	788	790	809	832
Other non-current assets	330	501	551	602	650
<b>Total Non-current Assets</b>	<b>1,561</b>	<b>1,975</b>	<b>2,061</b>	<b>2,160</b>	<b>2,257</b>
<b>TOTAL ASSETS</b>	<b>4,091</b>	<b>4,910</b>	<b>5,215</b>	<b>5,468</b>	<b>5,761</b>
Bank Borrowings	702	872	820	820	846
Trade Payables	85	105	89	88	89
Due to related parties	14	18	20	21	23
Other Current Liabilities	1,560	2,161	2,344	2,365	2,385
<b>Total Current Liabilities</b>	<b>2,362</b>	<b>3,155</b>	<b>3,272</b>	<b>3,294</b>	<b>3,343</b>
Bank Borrowings	787	700	682	665	643
Deferred Tax Liabilities	51	46	55	61	66
Other Long term Payables	57	109	140	157	162
<b>Total Long Term Liabilities</b>	<b>896</b>	<b>855</b>	<b>877</b>	<b>883</b>	<b>871</b>
<b>Total Minority Interest</b>	<b>441</b>	<b>342</b>	<b>417</b>	<b>483</b>	<b>555</b>
<b>Total Shareholders Equity</b>	<b>392</b>	<b>557</b>	<b>649</b>	<b>809</b>	<b>992</b>
<b>TOTAL LIABILITIES AND SHEQUITY</b>	<b>4,091</b>	<b>4,910</b>	<b>5,215</b>	<b>5,468</b>	<b>5,761</b>

Source: Ekspres Invest estimates, Company

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